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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 3B
January 22, 1988

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Takeshita's Visit Calms Relations

Noboru Takeshita's first visit to Washington as prime minister January 12-15 went smoothly, reassuring observers on both sides of the Pacific that bilateral relations were in capable hands. Mr. Takeshita achieved his principal goal of initiating a solid personal friendship with President Reagan, leaving substantive talks for later negotiations. The visit was not completely without discord, however, as trade issues were inevitably discussed.

During their two-hour meeting, the president and the prime minister touched on all areas of bilateral relations, but paid particular attention to exchange rate stability and macroeconomic policy coordination. "A further decline of the dollar could be counterproductive," the two leaders warned, reiterating their commitment to the Group of Seven's December statement on exchange rates (see JEI Report No. 1B, January 8, 1988). To insure that the Federal Reserve Board would have adequate yen funds to support coordinated central bank intervention, the two leaders disclosed that a pact had been negotiated between the Bank of Japan and the Fed to swap up to $5 billion for

that new food-labeling requirements in Japan constitute yet another agricultural import barrier. Furthermore, a group of 15 Democratic and Republican senators sent the prime minister a letter before his visit criticizing Tokyo's restrictions on rice imports.

Sen. John Danforth (R, Mo.), who is well known for his frustration with Japan's trade policies, also jumped on the critics' bandwagon. His grievance letter focused on the failure of Japanese motor vehicle exporters to raise their prices to accurately reflect the steep appreciation of the yen since September 1985. According to Sen. Danforth, "In the absence of responsible behavior on the part of Japanese automakers, it is inevitable that Japan will continue to face both intense pressure for a sharp reduction in the restraint level, and the very real threat of antidumping cases." He also listed several other market access issues involving fighter aircraft, silicon wafers, beef, public works construction and automotive parts.

Finally, House Asian and Pacific affairs subcommittee chairman Stephen Solarz (D, N.Y.) announced during a trip to Manila that he intends to visit Japan to discuss the possibility of a Japanese "mini Marshall Plan" for the Philippines. Mr. Solarz hopes to persuade Tokyo to initiate a program of grants, low-interest loans and investments as part of the policy of using economic assistance as Japan's contribution to international stability.

In short, the message seems to be that Congress wants further trade concessions and more Japanese initiatives to lighten the burden of American global responsibilities. The new prime minister is clearly prepared to put some issues on the bargaining tables, but in view of the lengthy list before him, he is bound to be wondering how much will be enough to satisfy Capitol Hill.

Eileen M. Doherty

Japanese Consumers Send Conflicting Signals

The Japanese, who rank among the world's greatest savers, are not yet the extravagant spenders some reports have concluded. While housing is booming, recent data reveal a mixed pattern for consumer spending, with some indicators pointing to a sharp rise while others hint at a contraction.

The growth of real gross national product in the July-September quarter was a strong 8.4 percent. While other components of domestic demand were up sharply, consumer spending lagged with an increase of 3.7 percent (see JEI Report No. 46B, December 11, 1987). Considering that consumer expenditures are partly the result of a multiplier effect from other public and private spending, this was a somewhat sluggish performance. Consumer outlays as a percentage of GNP fell from 56.4 percent in the April-June period to 55.8 percent in the year's third quarter.

Other data show a similar picture. Because consumer prices are rising slowly (up only 0.7 percent in November from the year before), these changes approximate real changes in spending. While department store sales show a healthy increase and car sales are generally higher despite some softness in

recent months, the broader measure of consumer spending is virtually unchanged from a year ago. This is not surprising in light of the small wage increases won over the past year (wages in November for all industries were up only 3 percent), but the numbers hardly suggest a spending spree.

Indicators of Consumer Spending*

	Average Worker's Household Spending	Department Store Sales	New Car Registrations**
January	1.2%	2.8%	260,721
February	2.2	4.9	268,550
March	1.2	4.6	264,558
April	0.6	4.6	244,788
May	2.4	7.0	260,468
June	-1.3	5.5	298,545
July	0.1	4.8	281,558
August	1.4	5.3	268,566
September	0.6	7.3	274,870
October	-0.1	6.0	296,936
November	n.a.	7.0	276,475
December (preliminary)	n.a.	n.a.	275,486

*Year-to-year change except as indicated.
**Seasonally adjusted.

Small wage increases are not the only reason, though. Consumers may be spending somewhat less of what they earn. Consumption averaged 81.4 percent of disposable income for the first nine months of 1987 compared to 82.1 percent for the year-earlier period. For all of 1986 this figure was 77.4 percent, the lowest level since 1978's ratio of 77 percent.

Douglas Ostrom

Congressional Outlook

When Congress reconvenes January 25 an extensive trade agenda will be waiting. Foremost among the items on that agenda is the pending omnibus trade bill, HR 3, which stalled last year in conference committee. Finance Committee chairman Lloyd Bentsen (D, Tex.) has indicated that he would like to see the conference committee agree on a bill by mid-March. But this scenario may be too optimistic. Some are predicting completion by early summer; others are beginning to consider the possibility that the bill may not get off the ground at all this year.

The uncertainty is already beginning to affect other trade isues. For example, the U.S.-Canada Free Trade Agreement is still awaiting a vote. Both the White House and the Canadian government would like to see it approved before legislators turn to HR 3. Canadian legislators, in fact, warn that Canada must be formally exempted from the provisions of the trade bill if the accord